by Murray F. Foss ☆

Investment Programs and Sales Expectations in 1954

AMERICAN business has scheduled 1954 investment in new plant and equipment close to the high 1953 rate. Investment programs for 1954 call for an expenditure of $27.2 billion, or about 4 percent below actual spending of $28.4 billion in 1953. Since average costs of capital goods have been relatively stable over the past year, the comparison can be accepted as a measure of the volume change as well.

Businessmen also report that they expect sales in 1954 to compare quite favorably with the 1953 total.

These findings are based upon reports filed during February and early March in the Office of Business Economics-Securities and Exchange Commission regular annual survey.

By industries, the survey indicates that manufacturing companies are anticipating a 7 percent reduction in fixed capital outlays from 1953. Commercial and mining companies are planning 3 percent increases, while the public utilities have projected little change from their 1953 expenditures. The most noteworthy change in investment rates from last year, a decline of about one-fourth, appears in railroads; other transportation companies expect to lower their investment about 4 percent.

Investment Programs

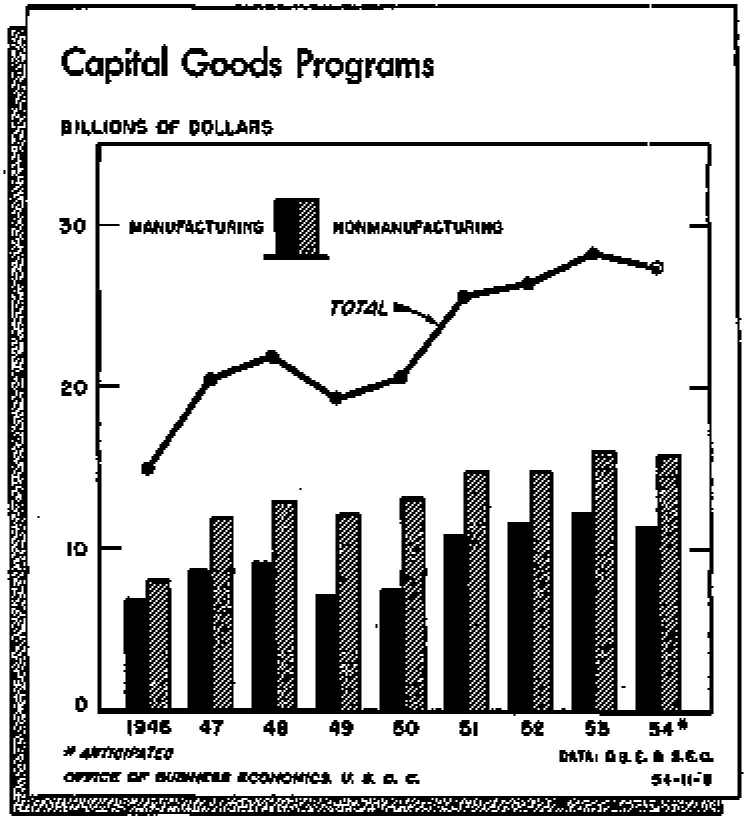
The survey also finds that businessmen have scheduled capital outlays at a seasonally adjusted annual rate of $27.8 billion in the first half of 1954. This compares with rates of $28.2 and $28.7 billion in the first and second halves of 1953. Given the $27.2 billion program for the full year 1954, the seasonally adjusted rate of plant and equipment expenditure implied in the second half is about $26.7 billion—a decline of 4 percent from the anticipation for the current half year. About three-fourths of the implicit reduction in planned spending during the final six months of this year is in manufacturing, railroads, and gas utilities.

In an evaluation of the indicated changes from the first to the second half of 1954, it should be noted that most surveys of capital spending intentions have tended to understate actual outlays, particularly in more distant periods. Since these surveys have been confined to the postwar period, there is very little experience that can be used as a guide in judging the behavior of anticipations during a downturn in business activity. In the limited slowdown of 1949, and with evidence of a renewed upturn of business by the middle of the year, capital expenditures proved to be just one percent lower than had been planned early in that year—although physical additions were higher.

Factors sustaining investment

The picture that emerges from this latest survey of business investment intentions is one of comparative strength. If these plans for the year ahead are realized, plant and equipment outlays would not be a significant independent influence on near-term changes in the aggregate demand picture.

There are a number of factors responsible for the maintenance of capital investment close to record rates. First, total demand for the products of business is still quite high despite the recent decline. Second, a number of investment programs are of long-run nature and—barring a major business downtrend—are not seriously influenced by short-term fluctuations in business activity. This is particularly true of industries with strong growth trends such as electric utilities, petroleum, and electrical machinery. In this respect, it is interesting to note that in a survey of large corporations conducted by this Office about eighteen months ago, businessmen indicated that their relatively favorable investment plans for 1953 and 1954 would not be appreciably affected by a "moderate" decline in business activity.



Third, there is still a substantial backlog of projects under the defense mobilization program. Many of these are already under way but they require considerable expenditure for completion. Fourth, replacement requirements are increasing. This is due partly to the generally rising trend in the nation's stock of fixed capital. In the recent period these requirements have been augmented since a good part of the relatively large volume of equipment purchased in the late thirties and early forties has reached or is approaching retirement age. The same is true of shorter-lived equipment

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purchased in the early part of the postwar period. Furthermore the increase in expenditures for research and development in recent years has probably quickened the pace of technological change so that modernization requirements have increased in importance.

This is not to suggest that recent sales and profits declines have not affected investment programs. The sharp downward adjustment of capital expenditures programs by the railroads stems in part from the recent drop in railroad operating income. In manufacturing, moreover, it appears that small and medium firms expect relatively larger declines than the largest companies. Because they are generally less able to undertake long-range programs and are more dependent on funds generated from current operations, the plans of the smaller companies are relatively more affected by a downturn in business than are those of large concerns.

Quarterly trends

The present survey indicates that actual capital outlays in the final quarter of 1953 declined about 1 percent from the seasonally adjusted annual rate of almost $29 billion in the previous quarter. The anticipated data for the first quarter of 1954 point to a rate of about $28 billion—almost the same as the 1953 average—while a further drop of about one-half billion dollars is expected in the second quarter (see chart).

On a seasonally adjusted basis, manufacturing and transportation companies expect to lower capital outlays in the first quarter, more than offsetting the rising expenditures anticipated by the utilities. However, it appears that the reduction in the second quarter is in large part attributable to the continued decline in the railroads. Manufacturers expect second quarter expenditures to show little change from the first quarter rate, with a small increase scheduled by nondurable-goods producers partly offsetting lower expenditures in the durable-goods sector.

Actual and anticipated expenditures in 1953

With actual data for the final quarter of 1953 now available it is possible to compare the results for the full year 1953 with stated anticipations of businessmen a year earlier.

As in most other postwar years, expectations regarding investment programs proved to be conservative. Aggregate expenditures rose 7 percent from 1952 to 1953 in comparison with a 2 percent anticipated increase reported by business in the survey made early in 1953. On the assumption that

Table 1.—Expenditures on New Plant and Equipment by U. S. Business,[1] 1951–54

[Millions of dollars]

	1951	1952	1953	1954[2]	1952 Jan.–Mar.	1952 Apr.–June	1952 July–Sept.	1952 Oct.–Dec.	1953 Jan.–Mar.	1953 Apr.–June	1953 July–Sept.	1953 Oct.–Dec.	1954 Jan.–Mar.[2]	1954 Apr.–June[2]
Manufacturing	10,852	11,632	12,276	11,410	2,612	3,067	2,768	3,235	2,747	3,152	2,946	3,382	2,856	2,903
Durable goods industries	5,168	5,614	5,821	5,220	1,289	1,425	1,304	1,596	1,301	1,406	1,476	1,638	1,353	1,319
Primary iron and steel	1,198	1,511	1,340	900	316	406	325	464	326	389	322	323	206	260
Primary nonferrous metals	310	512	456	330	112	122	142	137	112	120	109	115	90	77
Electrical machinery and equipment	273	385	481	490	88	94	90	120	88	119	116	158	119	138
Machinery except electrical	683	701	808	720	163	171	156	211	158	216	101	214	194	187
Motor vehicles and equipment	641	866	1,359	1,450	240	284	265	285	330	303	275	411	359	348
Transportation equipment excluding motor vehicles	210	231												
Stone, clay, and glass products	307	330	339	300	67	82	76	86	75	88	84	92	75	76
Other durable goods[3]	1,120	1,107	1,238	960	276	284	250	295	317	323	278	310	276	265
Nondurable goods industries	5,684	6,018	6,455	6,190	1,333	1,642	1,401	1,642	1,416	1,707	1,569	1,764	1,510	1,584
Foods and beverages	843	760	818	760	188	206	170	196	196	237	189	196	184	207
Textile mill products	631	454	351	280	118	120	93	163	96	96	77	82	68	61
Paper and allied products	429	364	431	430	88	89	92	97	86	103	117	125	115	112
Chemicals and allied products	1,247	1,386	1,659	1,319	312	363	336	384	358	417	370	414	370	363
Petroleum and coal products	2,102	2,485	2,702	2,560	501	729	578	727	640	709	605	815	621	707
Rubber products	150	154	158	168	40	44	37	37	34	43	37	44	30	43
Other nondurable goods[4]	382	377	370	410	92	101	85	99	111	101	70	85	106	109
Mining	929	985	1,011	1,040	247	256	234	253	235	234	265	288	242	273
Railroad	1,474	1,396	1,312	840	362	380	291	365	313	354	300	341	205	238
Transportation, other than rail	1,490	1,500	1,464	1,400	383	412	333	373	337	364	386	376	288	347
Public utilities	3,664	3,887	4,548	4,430	831	953	944	1,159	923	1,156	1,219	1,246	1,023	1,179
Commercial and other[5]	7,235	7,094	7,778	8,010	1,784	1,751	1,719	1,839	1,782	1,979	1,984	2,022	1,873	1,969
All industries	25,644	26,493	28,381	27,236	6,229	6,816	6,242	7,206	6,339	7,229	7,098	7,666	6,606	6,932

Seasonally adjusted at annual rates

[Billions of dollars]

	1951	1952	1953	1954[2]	1952 Jan.–Mar.	1952 Apr.–June	1952 July–Sept.	1952 Oct.–Dec.	1953 Jan.–Mar.	1953 Apr.–June	1953 July–Sept.	1953 Oct.–Dec.	1954 Jan.–Mar.[2]	1954 Apr.–June[2]
Manufacturing					11.79	11.78	11.21	11.73	12.33	12.26	12.30	12.22	11.70	11.50
Mining					1.05	1.01	.92	.96	.98	.93	1.06	1.10	1.00	1.08
Railroad					1.46	1.46	1.27	1.32	1.34	1.34	1.30	1.30	1.17	.88
Transportation, other than rail					1.60	1.55	1.37	1.51	1.38	1.36	1.50	1.43	1.40	1.35
Public utilities					3.86	3.78	3.74	4.08	4.40	4.04	4.72	4.48	4.80	4.59
Commercial and other[5]					7.16	7.00	7.12	7.12	7.42	7.02	7.04	8.00	8.04	8.03
All industries					27.96	26.87	25.06	26.72	27.84	28.48	28.93	28.86	28.04	27.53

1. Data exclude expenditures of agricultural business and outlays charged to current account. Estimates after 1951 have been revised.

2. Estimates based on anticipated capital expenditures as reported by business in February and early March 1954. Seasonally adjusted data for these quarters are also adjusted when necessary for systematic tendencies in anticipatory data.

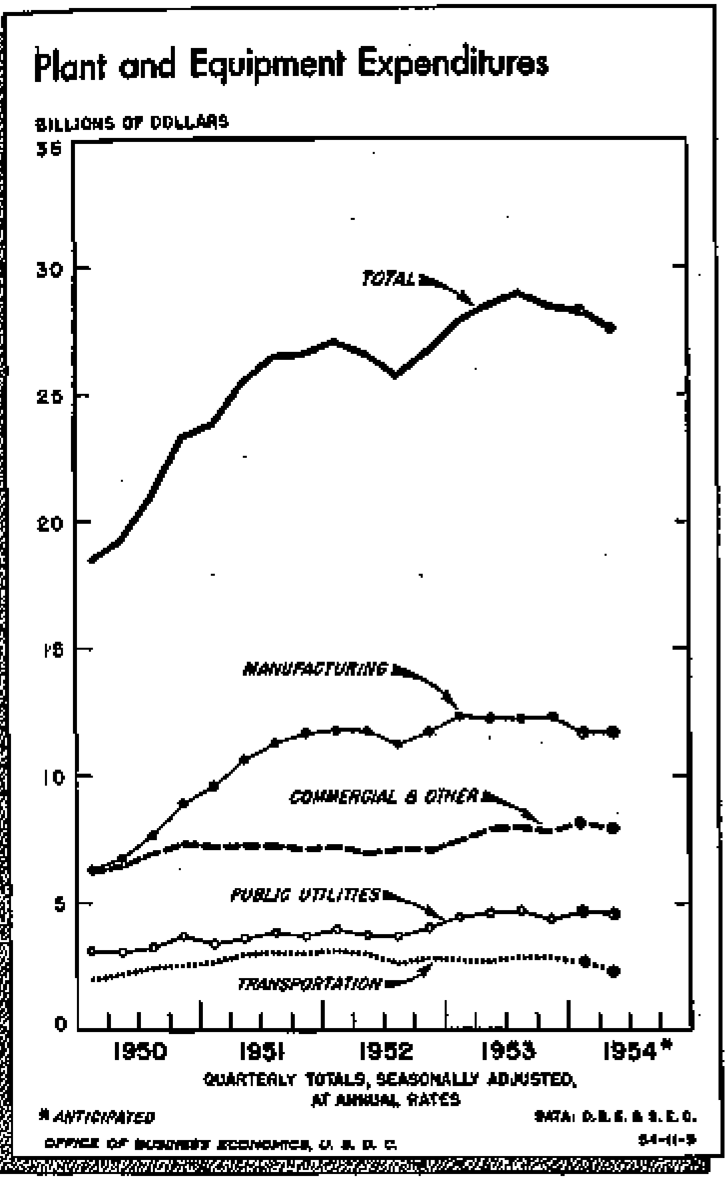
3. Includes fabricated metal products, lumber products, furniture and fixtures, instruments, ordnance, and miscellaneous manufactures.

4. Includes apparel and related products, tobacco, leather and leather products, and printing and publishing.

5. Includes trade, service, finance, communication, and construction.

Source: U. S. Department of Commerce, Office of Business Economics, and Securities and Exchange Commission.

businessmen were thinking in terms of plant and equipment costs prevailing at the time they made their projections, a small part of this difference is accounted for by the slight rise in capital goods prices that occurred during 1953.



The largest relative excesses of actual overplanned spending occurred in the manufacturing and commercial groups—6 and 10 percent, respectively. Public utilities also spent more than planned, while the drop in outlays planned by the railroads was not quite so large as expected earlier. Only in nonrail transportation, where a slight decrease took place over the year, did actual programs fall short of the slight rise that was scheduled.

Within manufacturing, actual increases were generally larger and decreases smaller than planned. The 7 percent rise in investment by manufacturers of nondurable goods exceeded the anticipated increase of 5 percent, while the 5 percent drop forecast by producers of durable goods compares with an actual increase of 3 percent.

Manufacturing outlays lowered

With a few important exceptions most manufacturing industries expect their investment programs this year to be below 1953. Declines are prevalent in durable goods manufacturing, especially in those industries that greatly expanded capacity following the outbreak of Korean hostilities. Running contrary to the durable goods trend are the transportation equipment industry, especially motor vehicles, and to a lesser extent electrical machinery, where increases over last year are anticipated.

Primary metal companies expect to reduce their capital expenditures for the second successive year. Iron and steel companies and nonferrous producers are both anticipating a drop of about one-fourth from last year's rates of fixed investment. The steel expansion program still requires sizable outlays for raw materials and finishing facilities, however, and the 1954 projection is still well above pre-Korean rates.

Machinery companies (other than electric) are expecting a drop of about 10 percent in their expenditures from 1953 to 1954, reflecting the near-completion of expansion programs like machine tools as well as the somewhat reduced equipment demand.

The rise expected by motor vehicle and electrical machinery producers marks the fifth successive year of increasing outlays in these industries. Electrical machinery has been undergoing a very pronounced growth, its fixed assets having increased more than any other major manufacturing industry since the early postwar period. While growth is also a factor in the scheduled rise by motor vehicle producers, an added element of importance is the desire to improve production facilities under increasingly competitive sales conditions.

In the nondurable goods sector, paper, rubber, and petroleum companies anticipate maintenance or slight increases in 1954 capital spending. Food and beverage companies expect a moderate decline, while textile and chemicals concerns have programed larger reductions in capital outlays during 1954. Petroleum and paper companies are still undergoing sizable expansion programs, and expect continued high rates of investment throughout 1954.

In food and beverages, on the other hand, outlays appear to be more closely geared to replacement requirements; expenditures in these fields are noticeably lower than they were in the few years just before Korea. The drop expected by the chemicals group marks a reversal of the sharp upward trend in outlays underway after 1949, but as in the case of iron and steel, 1954 projected outlays are still well above rates prevailing in the pre-Korean period. Outlays by textile concerns are expected to drop quite sharply—for the third successive year—to the lowest amount since World War II.

Nonmanfacturing investment strong

The nonmanufacturing industries constitute a source of strength in the overall investment picture for 1954. As the first chart indicates, investment in the nonmanufacturing sector, in the postwar period at least, has typically been less volatile than in manufacturing. In large part this is due to the importance of strong growth trends in communications and public utilities, in trucking and air transport, and in the railroads' dieselization program. Although the stimulus of the diesel locomotive program diminished in the more recent postwar period, capital investment by commercial companies began to take on increasing importance.

Another reason may be found in the status of expansion projects under the Government's rapid tax-amortization program. While overall figures as of September 30, 1953, show that plant and equipment programs by nonmanufacturing companies were about two-thirds finished (about the same proportion as in manufacturing)—as measured by the ratio of the value of work already in place relative to the total value of certificates issued—investment in excess of $4 billion remains. When projects fully completed are excluded, it appears that progress on projects not yet completed as of last September was less advanced in nonmanufacturing than manufacturing—47 as against 56 percent.

Rails cut back sharply

Railroads expect to reduce fixed investment programs this year from 1953 more than any other major industry, to the lowest point since 1947. The drop results from a number of considerations including the recent deterioration in operating revenues and income.

The diesel program has progressed to the point where better than three-fourths of the motive power of Class I railroads is now supplied by diesel locomotives. Installation of new diesels dropped by more than one-fourth from 1952 to 1953 while backlogs at the beginning of this year were lower than at any time since the early postwar period. Reduced spending for freight cars is also in prospect. Unfilled orders averaged only five months of installations at the start of 1954 and were lower than at any time since 1949.

Electric and gas utilities as a group are scheduling investment this year at $4.4 billion, just below last year's record rate. This is the only major group that had increased its capital outlays each year throughout the postwar period—a reflection of the strong growth underlying the electric power and natural gas industries.

Electric power companies report that their capital outlays in 1954 will approximate those of last year. Despite a three-fourths increase in generating capacity of privately owned utilities since the end of World War II, power companies are planning further substantial additions in 1954 and 1955.

Table 2.—Manufacturers' Sales Expectations, 1954, by Industry [1]

	Expected percent change in sales 1953–54		Expected percent change in sales 1953–54
Total	−3		
Durable goods industries	−8	Nondurable goods industries	3
Primary iron and steel	−17	Food and beverages	5
Primary nonferrous metals	−12	Textile-mill products	−4
Electrical machinery	−6	Paper and allied products	0
Machinery except electrical	−8	Chemicals and allied products	2
Transportation equipment including motor vehicles	−9	Petroleum and coal products	3
Stone, clay, and glass products	−4	Rubber products	−3
Other durable goods [2]	−5	Other nondurables [3]	11

1. These anticipations were reported by business during February and early March.
2. Includes fabricated metals, lumber, furniture, instruments, ordnance, and miscellaneous.
3. Includes tobacco, apparel, printing and publishing, and leather.

Source: U. S. Department of Commerce, Office of Business Economics, and Securities and Exchange Commission.

Gas companies are expecting a moderate drop in outlays this year due largely to reductions in expenditures on natural gas pipeline facilities. To a large extent the 1954 decline is expected to occur in the latter months of the year.

Other nonmanufacturing investment

Mining companies expect a small increase from 1953, with planned increases in gas and oil well drilling and in investment by iron ore companies more than offsetting programed cutbacks by coal and nonferrous mining concerns.

The planned increase in the commercial group is a result of the buoyant activity in store and office building construction. Food and general merchandise chains in particular are expecting to continue the steady increase in store investment that began in late 1952. A major factor in the commercial building boom is the continued population and home building trend in suburban areas; in addition, food chains have extensive plans for modernizing and enlarging stores in existing neighborhoods. The movement to the suburbs, of course, has favorable implications for other types of private and public construction not covered in this survey—such as churches, schools, and road and utility construction.

Revisions in capital expenditures data

This article also presents revised data on plant and equipment expenditures for the 1952–53 period. The estimates for 1951 and earlier years are unaffected by the latest revision and may be compared with the revised 1952–53 statistics. The revised series incorporate expenditure data now available in the 1952 annual reports of virtually all corporations registered with the Securities and Exchange Commission as well as from an enlarged group of nonregistered manufacturing companies. A detailed description of this series including methodology is contained in articles in the December 1951 and August 1952 issues of the *Survey*.

Sales Expectations in 1954

The survey of capital spending intentions also inquired into businessmen's sales anticipations for 1954. It should be noted that the future course of sales is to a large extent outside the control of individual companies. They do, however, provide some indication of management's evaluation of current economic conditions.

By and large, the results indicate that business expects sales to be little changed from 1953. Manufacturers are thinking in terms of a 3 percent sales decline, the utilities expect their revenues to increase about 10 percent—somewhat less in electric power—while other major industry groups expect, in the aggregate, to maintain 1953 rates.

Manufacturers of durable goods expect their sales to fall 8 percent this year as compared to 1953, while the nondurable group as a whole is anticipating a 3 percent increase in 1954. At the beginning of 1954 durable and nondurable goods sales were running almost 10 and 2 percent below their respective 1953 averages—so that the expectation of the former are about in line with current volume, but a moderate increase in the nondurable field is implied.

All durable-goods industries are expecting a lower dollar volume of sales this year. The largest sales decline in durables is expected by primary metals producers—both iron and steel and nonferrous. Sizable declines in sales are also projected by transportation equipment (including motor vehicles) and machinery companies. It may be noted that despite these lower sales expectations, both the transportation equipment and electrical machinery groups anticipate higher investment.

In the nondurable sector, most industries expect their sales to increase slightly or remain unchanged from 1953 rates. Textiles and rubber are the only industries anticipating a reduction in sales during 1954.

Manufacturers' sales expectations for 1953 were generally realized, although as in other years of increased activity, actual sales were higher than anticipated in most industries. Durable-goods manufacturers experienced a 14 percent gain over 1952, in contrast to the 11 percent increase expected early in 1953, while the corresponding figures for the nondurable group were 6 and 4 percent, respectively.

Deviations between actual and projected sales increases were pronounced in the nonferrous and motor vehicles industries. Sales by other transportation equipment companies fell short of expectations. In nondurables, textiles and rubber were the only major groups whose expectations were not realized.